



October 18, 2019

Ms. Bethany Rhodes, Director and General Counsel
Ohio Retirement Study Council
Rhodes State Office Tower
30 East Broad Street, 2nd Floor
Columbus, OH 43215

Dear Ms. Rhodes:

Enclosed is the proposed 2020 operating budget for the Ohio Public Employees Retirement System (OPERS). The proposed operating budget of \$115.0 million reflects a 0.9% increase in expenses from the prior year's budget. The 0.9% increase relates primarily to the anticipated pension plan design and health care plan changes and associated costs related to internal systems and communication and education for members and other stakeholders. Some of these items are reflected in the \$1.0 million increase in the communications expense category and the \$1.0 million increase in the computer technology expense category. Partially offsetting these increases is a \$0.6 million decrease in the investment consulting category related to research and analytics services, which experienced cost savings from the recent implementation of a new system for Fixed Income analytics. The remaining expense category fluctuations are less significant and offset each other.

This budget reflects \$0.6 million in savings from the elimination of seven vacant positions. The continued reduction in staffing has been achieved as a result of technology efficiencies. The proposed budget also includes a 3% merit-based increase awarded to employees using a thorough evaluation process. The 3% increase accounts for a \$1.8 million increase to the budget from the prior year.

The proposed operating budget reflects funding for on-going operations and key initiatives included in OPERS' strategic plan. The strategic plan includes the continued implementation of significant technology initiatives designed to position the system to handle the expected large growth in retirees without a corresponding increase in staff. These initiatives, which began several years ago, will enable OPERS to continue to provide quality customer service to our over one million members and retirees, thereby continuing OPERS' proud tradition of providing value for the State of Ohio through the distribution of pension benefits and health care coverage.

The proposed 2020 capital budget reflects a decrease of 4.4% and includes \$6.7 million of costs to enable the internal pension system to support potential plan design changes, legacy system migration and post migration support. Due to several information technology strategic plan initiatives, including these system changes, the capital budget includes \$5.0 million in estimated internal labor costs associated with these capital initiatives. Capital budget for internal labor reduces the operating budget. The proposed 2020 operating budget personnel expense category does not include \$5.0 million in personnel costs anticipated to be capitalized as part of the capital



projects planned in 2020, compared to \$4.3 million budgeted in 2019. The proposed 2020 capital budget also includes \$2.1 million for potential replacement of mainframes for both the OPERS main building and the disaster recovery location.

Attachment 1 reflects the proposed 2020 operating budget. All key variances have already been described.

Attached you will find budget information presented in the format approved by the ORSC for adoption by the five Ohio public retirement systems.

- Attachment 1 is a statement of planned operating expenditures, including comparisons to the 2019 fiscal year budget for OPERS and projected expenses for 2019.
- Attachment 2 is the detailed capital budget.
- Attachment 3 is a two-year historical summary of investment costs and management fees.
- Attachment 4 is a 10-year schedule and bar graph of budgeted Retirement Board-related meeting and travel expenses that are included in the overall organization operating budget.
- Attachment 5 shows the OPERS budgeted education, training and due diligence travel detailed by requested divisions on a per-FTE basis.
- Attachment 6 shows statistical information about the number of members in OPERS and the number of members per OPERS staff (FTE) providing benefits and services.

We believe this budget provides the necessary support to continue to fund the operations of a growing and complex multi-billion dollar organization. As OPERS plans for the upcoming changes, we are committed to running an efficient organization that continues to provide superior customer service to our members and supports the State of Ohio.

Please feel free to contact me if I can assist with any questions or provide additional information.

Sincerely,

A handwritten signature in black ink that reads "Karen E. Carraher".

Karen E. Carraher
Executive Director

Ohio Public Employees Retirement System
2020 ORSC BUDGET PRESENTATION

FY 2019 to FY 2020 Operating Budget and Increase (Decrease)

Budget Category	2020 Budget	2019 Budget	2019 Estimated Actual	2019-2020 Increase (Decrease)	Percent Change (2019-2020)
Personnel	\$67,620,760	\$67,793,297	\$67,279,592	(\$172,537)	(0.3) %
Salaries and Wages	50,488,697	50,681,579	50,613,054	(192,882)	(0.4)
PERS Contributions	7,541,502	7,536,898	7,383,072	4,604	0.1
Health Insurance	9,384,821	9,373,800	9,106,256	11,021	0.1
Miscellaneous Expenses	205,740	201,020	177,210	4,720	2.3
Professional Services	\$25,085,661	\$25,929,987	\$24,879,400	(\$844,326)	(3.3) %
Actuarial	820,285	783,633	783,633	36,652	4.7
Audit	497,390	446,900	346,900	50,490	11.3
Custodial Banking Fees	7,993,000	8,130,000	7,595,000	(137,000)	(1.7)
Investment Consulting	11,967,083	12,587,975	12,418,743	(620,892)	(4.9)
Other Consulting	3,764,903	3,935,479	3,693,124	(170,576)	(4.3)
Banking Expenses	43,000	46,000	42,000	(3,000)	(6.5)
Communications Expense	\$3,730,165	\$2,768,854	\$2,690,302	\$861,311	34.7 %
Printing and Postage	3,264,781	2,405,661	2,271,041	859,120	35.7
Telecommunications	242,884	230,933	232,720	11,951	5.2
Member/Employer Education	222,500	132,260	186,541	90,240	68.2
Other Operating Expenses	\$14,772,286	\$13,624,550	\$13,711,365	\$1,147,736	8.4 %
Conferences and Education	486,006	419,677	436,803	66,329	15.8
Travel	604,201	485,792	433,993	118,409	24.4
Computer Technology	12,065,610	11,057,172	11,210,905	1,008,438	9.1
Other Operating	1,215,430	1,229,655	1,199,113	(14,225)	(1.2)
Ohio Retirement Study Council	300,000	335,469	335,469	(35,469)	(10.6)
TOS Warrant Clearing Charges	7,000	7,000	5,297	0	0.0
Attorney General Charges	94,039	89,785	89,785	4,254	4.7
Net Building Expense	\$3,784,128	\$3,863,312	\$3,597,778	(\$79,184)	(2.0) %
Total Operating Budget	\$114,993,000	\$113,980,000	\$112,158,437	\$1,013,000	0.9 %
Full-Time Equivalent (FTE) Associates	574	581			
Other Items Monitored by OPERS					
Depreciation	\$13,676,000	\$12,343,000	\$12,091,352	\$1,333,000	10.8 %
Commission Sharing Agreements - Research Costs	\$350,000	\$330,000	\$309,000	\$20,000	6.1 %

Ohio Public Employees Retirement System
2020 ORSC BUDGET PRESENTATION

FY 2019 to FY 2020 Capital Budget

	2020 Budget (does not include carryover from previous years)	2019 Budget (does not include carryover from previous years)	2019 Estimate
Total Capital Budget*	\$10,795,386	\$11,269,700	\$8,348,479
Building and Building Equipment	70,000	130,000	392,267
Computer Software, Equipment and Other	2,639,946	4,639,700	2,818,443
IT Capital Projects	8,085,440	6,500,000	5,137,769

*Includes capitalizable internal labor of \$5.0 million and \$4.3 million in 2020 and 2019, respectively.

Ohio Public Employees Retirement System
2020 ORSC BUDGET PRESENTATION

Investment Expenses

	2018 Actual	2017 Actual	Percent Change (2017 to 2018)
Total Investment Assets	\$93,822,051,268	\$100,876,725,701	(6.99) %
Total Internally Managed Assets	40,562,640,341	40,002,517,929	1.40
Total Externally Managed Assets	53,259,410,927	60,874,207,772	(12.51)
Total Investment Expenses	\$469,351,197	\$458,143,068	2.45 %
Total Internal Investment Expenses	37,748,650	33,939,627	11.22
Total External Investment Expenses*	418,789,730	410,779,090	1.95
Investment Consulting	1,009,000	1,074,026	(6.05)
Brokerage/Commissions-Internal	2,172,529	1,774,334	22.44
Brokerage/Commissions-External	5,642,977	6,723,986	(16.08)
Custodian Fees	3,988,311	3,852,005	3.54
Total Investment Expenses as a % of Total Investment Assets	0.50%	0.45%	
Expenses as % of Internally Managed	1.16	1.15	
Expenses as % of Externally Managed	0.88	0.75	

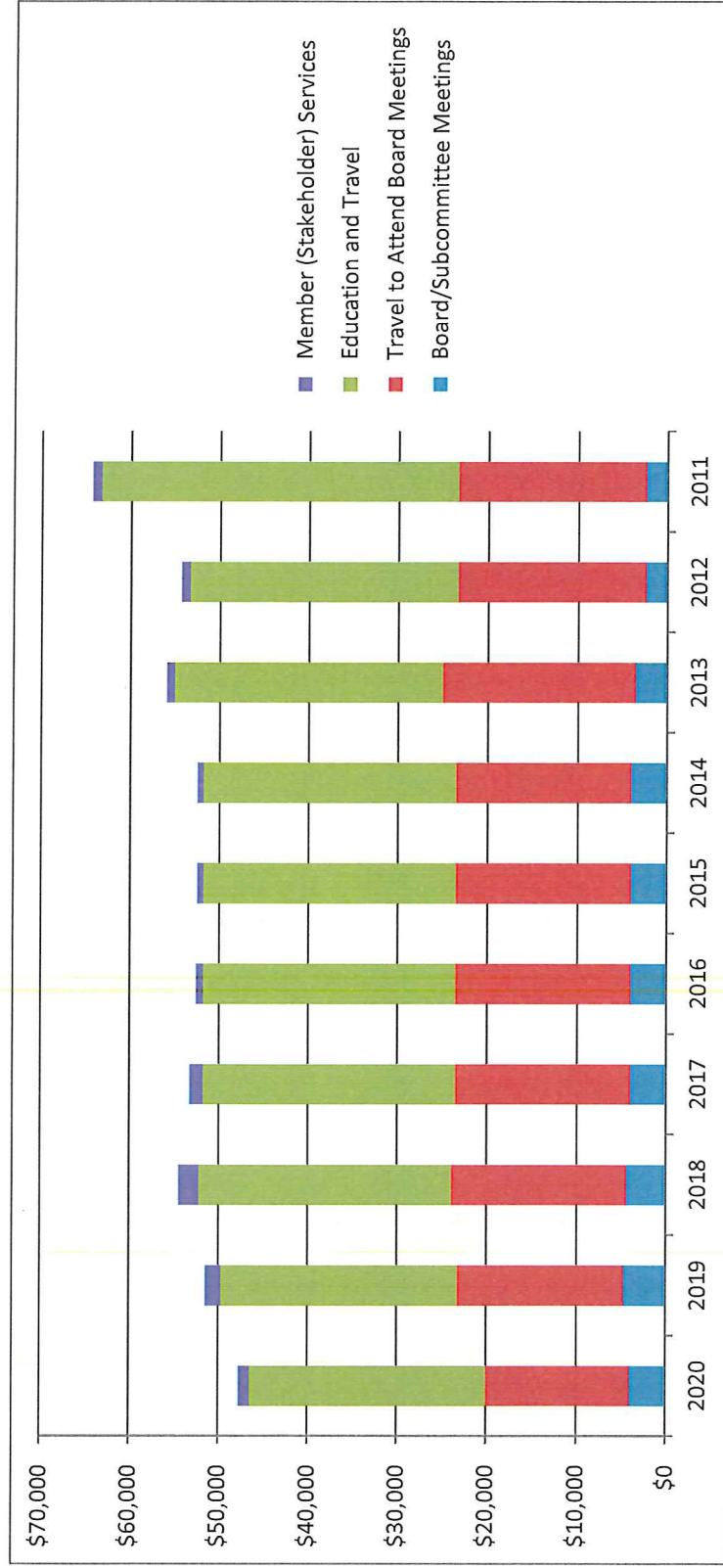
* - Includes net management fees and fund expenses.

Note: 2019 Investment Expenses not available. Does not include research costs paid through Commission Sharing Agreements.

Ohio Public Employees Retirement System
2020 ORSC BUDGET PRESENTATION

Board Member Expenses

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Total Board Expenses	\$47,700	\$51,400	\$54,450	\$53,200	\$52,500	\$52,400	\$52,400	\$55,900	\$54,300	\$64,300
Board/Subcommittee Meetings	\$4,000	\$4,700	\$4,400	\$3,950	\$3,950	\$3,950	\$3,950	\$3,500	\$2,300	\$2,300
Travel to Attend Board Meetings	\$16,000	\$18,500	\$19,500	\$19,500	\$19,500	\$19,500	\$19,500	\$21,500	\$21,000	\$21,000
Education and Travel	\$26,500	\$26,500	\$28,250	\$28,250	\$28,250	\$28,250	\$28,250	\$30,000	\$30,000	\$40,000
Member (Stakeholder) Services	\$1,200	\$1,700	\$2,300	\$1,500	\$800	\$700	\$700	\$900	\$1,000	\$1,000



Ohio Public Employees Retirement System
2020 ORSC BUDGET PRESENTATION

Staff Training and Travel

	FY 2020	FY 2019	Increase (Decrease)	% Increase (Decrease)
Administration				
Conferences & Seminars	\$312,544	\$222,622	\$89,922	40.4 %
In-House Training	\$13,857	\$11,840	\$2,017	17.0
#FTE	73	70	3	4.3
Training Expense per FTE	\$4,471	\$3,349	\$1,122	33.5

	FY 2020	FY 2019	Increase (Decrease)	% Increase (Decrease)
Finance and Benefits				
Conferences & Seminars	\$112,755	\$113,300	(\$545)	(0.5) %
In-House Training	\$12,665	\$13,165	(\$500)	(3.8)
#FTE	159	166	(7)	(4.2)
Training Expense per FTE	\$789	\$762	\$27	3.5

	FY 2020	FY 2019	Increase (Decrease)	% Increase (Decrease)
Investments				
Conferences & Seminars	\$197,460	\$154,461	\$42,999	27.8 %
In-House Training	-	-	\$0	-
#FTE	67	67	0	-
Training Expense per FTE	\$2,947	\$2,305	\$642	27.9

	FY 2020	FY 2019	Increase (Decrease)	% Increase (Decrease)
Information Technology/Information Services				
Conferences & Seminars	\$114,696	\$133,990	(\$19,294)	(14.4) %
In-House Training	\$116,992	\$84,750	\$32,242	38.0
#FTE	153	155	(2)	(1.3)
Training Expense per FTE	\$1,514	\$1,411	\$103	7.3

	FY 2020	FY 2019	Increase (Decrease)	% Increase (Decrease)
Member Services				
Conferences & Seminars	\$26,290	\$22,545	\$3,745	16.6 %
In-House Training	\$3,398	\$5,958	(\$2,560)	(43.0)
#FTE	122	123	(1)	(0.8)
Training Expense per FTE	\$243	\$232	\$11	4.7

Ohio Public Employees Retirement System
2020 ORSC BUDGET PRESENTATION

Supplementary Statistical Information

	2019 ^a	2018 ^b	2017	2016	2015
Active Members	303,920	303,920	347,730	346,959	345,622
Inactive Members	628,091	628,091	559,587	537,309	516,049
Benefit Recipient (Age, Dis., Survivor)	212,953	212,953	210,882	208,381	205,601
Re-employed Retirees	Included Above	Included Above	Included Above	Included Above	Included Above
Total Membership	1,144,964	1,144,964	1,118,199	1,092,649	1,067,272
Members Per FTE	1,971	1,911	1,772	1,697	1,662

^aMember counts for year-end 2019 not available; reflects 2018 counts for calculation purposes.

^bIn 2018, the data aggregation methodology was modified for Active and Inactive counts after system reconfigurations. Restated data for years prior to 2018 is not available.